

December 15, 2000

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Teachers' Retirement Board
Alaska State Pension Investment Board
Employers and Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2000. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The FY 2000 CAFR is divided into five sections:

- an **Introductory** Section, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Teachers' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Information, and Notes to Required Supplementary Information;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of the members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current (June 30, 1999) annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the Systems.

	TRS		
	FY00	FY99	FY98
Net Assets (millions)	\$4,484.9	4,204.0	3,915.2
Participating Employers	60	60	62

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Teachers' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division, listed in the Investment Section on pages 38 and 39. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2000, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Legislation

During the FY 2000 legislative session, there were four laws that affected the TRS:

- Senate Bill 85 - An act relating to credited service in the public employees' retirement system for temporary employment; and creating a public service benefit in the public employees' retirement system.
- House Bill 226 - An act relating to credited service under the teachers' retirement system for education employees on leave without pay or receiving workers' compensation benefits because of certain on-the-job injuries.
- House Bill 236 - An act relating to credited service in the teachers' retirement system for part-time employment.
- House Bill 335 - An Act relating to information contained in retirement system records; relating to retirement boards; relating to procedures and hearings under state retirement systems; relating to benefits for reemployed retired members of retirement systems; relating to eligibility for normal retirement for members of the teachers' retirement system who have Alaska BIA credited service; relating to disability benefits for members of state retirement systems; relating to deduction of premiums from retirement benefits; relating to protection of, and assignment and transfer of, amounts held in retirement systems; relating to retirement benefits for certain employees earning

high salaries; relating to qualified domestic relations orders in state retirement systems; relating to the definition of 'retirement fund' in the teachers' retirement system; relating to membership of state employees in the teachers' retirement system; relating to refund of contributions made to the judicial retirement system and repayment of refunded contributions in that system; relating to self-insurance and excess loss insurance for persons receiving benefits from a state retirement system; relating to participation of elected officials in the public employees' retirement system; relating to the level income option benefit under the public employees' retirement system; relating to participation of employees of political subdivisions and public organizations in the public employees' retirement system; relating to crimes for defrauding a state retirement system; relating to the definition of 'pension fund' in the public employees' retirement system; and relating to calculation of years of service and of benefits under the public employees' retirement system for noncertificated employees of certain educational employers.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 1999. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of employer and employee contributions and investment income.

	Revenues			
	Millions		Inc/(Dec)	
	FY00	FY99	Amt	%
Employee Contributions	\$ 48.5	48.3	0.2	0.4%
Employer Contributions	74.7	66.3	8.4	12.7%
Net Investment Income	<u>406.6</u>	<u>397.5</u>	<u>9.1</u>	2.3%
Total	<u>\$ 529.8</u>	<u>512.1</u>	<u>17.7</u>	3.5%

The increase in employer contributions was primarily due to an increase in employer RIP contributions. Even though the rate of return on investments decreased from 10.67% to 10.15%, there was an increase in investment income as additions to the fund exceeded deductions for the year, which meant that the System had more to invest over the course of the year.

Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Expenses		Inc/(Dec)	
	Millions			
	FY00	FY99	Amt	%
Pension Benefits	\$ 202.9	187.1	15.8	8.5%
Healthcare Benefits	40.2	31.0	9.2	29.7%
Refunds	4.1	3.5	0.6	17.1%
Administrative Expenses	<u>1.7</u>	<u>1.7</u>	<u>.0</u>	0.0%
Total	<u>\$ 248.9</u>	<u>223.3</u>	<u>25.6</u>	11.5%

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits.

Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY 2000, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 17% in International Equities, 30% in Domestic Fixed Income, 5% in International Fixed Income, and 7% in Real Estate.

For FY 2000, TRS investments generated a 10.15% rate of return. The TRS annualized rate of return was 11.87% over the last three years and 13.61% over the last five years.

Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY 2000 and a rolling amortization of the unfunded accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities increased from 97.7% to 102.5% during the year, primarily due to continued favorable investment experience. Over the years, progress has been made toward achieving the funding objectives of the System.

There were no significant changes in the actuarial assumptions or actuarial methods used in the determination of System liabilities this year. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

Valuation Year	Millions	
	1999	1998
Valuation Assets	\$3,815.6	3,446.1
Accrued Liabilities	3,721.0	3,528.8
Funding ratio	102.5%	97.7%

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.


Acknowledgments


The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.


We would like to take this opportunity to express our gratitude to the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

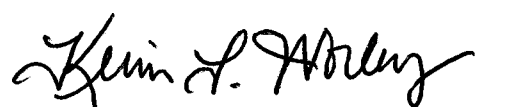
Respectfully submitted,


Jim Duncan
Commissioner


Guy Bell
Director


Janet L. Parker
Deputy Director


Anselm Staack, CPA, JD
Chief Financial Officer


Kevin T. Worley, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

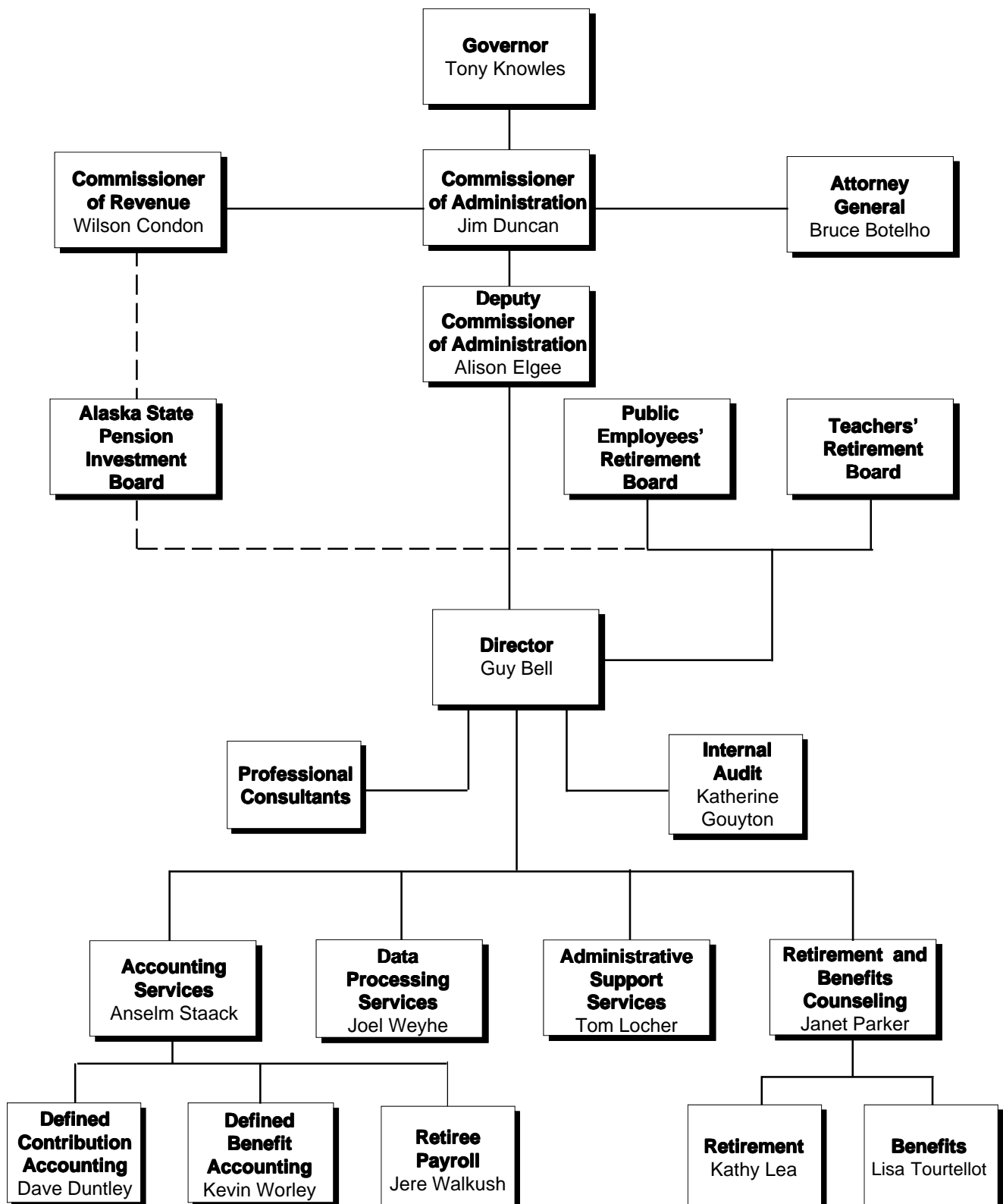
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinney
President

Jeffrey L. Essler
Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the Systems' record center containing the members' physical records and performs other administrative functions, such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
Consulting Actuary William M. Mercer, Incorporated <i>Seattle, Washington</i>	Legal Counsel John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i>
Independent Auditors KPMG LLP <i>Anchorage, Alaska</i>	Legal Counsel - Retirement Boards Wohlforth, Vassar, Johnson & Brecht <i>Anchorage, Alaska</i>
Benefits Consultant Deloitte & Touche, LLP <i>Minneapolis, Minnesota</i>	Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i>
Third Party Health Claim Administrator Aetna Life Insurance Company <i>Walnut Creek, California</i>	

A list of external money managers and consultants for the System can be found on pages 38 and 39, and the Schedule of Investment Management Fees on page 47.

TEACHERS' RETIREMENT BOARD



Elizabeth Briggs Hertz, Chair

Term Expires: January 31, 2003

Elizabeth "Betty" Briggs Hertz arrived in Alaska in 1967. Ms. Hertz taught for 23 years in the Anchorage School District and retired in 1990. During her teaching career, she taught at West Anchorage High School and Steller Secondary School. Ms. Hertz has also held a variety of positions in the Anchorage Education Association. Since retirement, Ms. Hertz has taught English classes at the University of Alaska-Anchorage and management courses at the Alaska Pacific University. She and her husband started Windemere Consultants, a management consulting business specializing in interpersonal communications and career development planning.



Robert Salo, Vice President

Term Expires: January 31, 2001

Robert Salo first began teaching in Alaska in 1965. Before Mr. Salo retired in 1990 he spent 22 years teaching Physical Education and 3 years as Kenai Central High School's assistant principal. Mr. Salo's wife, Judith and his daughter, Holly, are teachers also. He currently resides in Kenai.

Mr. Salo has a long involvement with teaching and has served, in a leadership capacity, on many committees and boards including NEA, American Alliance of Health, National Interscholastic Association of Athletic Directors and Kenai Peninsula School Administrators Association.



Charlie Arteaga

Term Expires: January 31, 2002

Charles Arteaga has been an Alaskan resident for 29 years. He resides in Ketchikan with his wife, Judith. He received his Bachelor's in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga is a life-long Democrat and was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and intends to remain an active Alaskan citizen.



Gayle W. Harbo

Term Expires: June 30, 2002

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska-Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District's Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed travelling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their six grandchildren.



Gerald Patterson

Term Expires: June 30, 2002

Gerald "Jerry" Patterson began his Alaskan teaching career in Juneau in 1971 as a reading specialist but spent most of his time teaching fifth grade. He remained in the same school, Auke Bay Elementary, until his retirement in 1990 and currently resides in Juneau with his wife Carol, also a retired teacher. Mr. Patterson is a graduate of Western Washington State College where he received both his bachelors and masters degrees. During his teaching career, he was active with the Juneau Education Association, holding a variety of positions, and remains active with two retired teacher groups. In his spare time, Mr. Patterson enjoys traveling and taking advantage of the many outdoor opportunities available in Juneau.